

THE OFFICE OF REGULATORY STAFF

SETTLEMENT TESTIMONY

OF

SHARON G. SCOTT

SEPTEMBER 16, 2008



**DOCKET NO. 2008-142-W/S
APPLICATION OF GOAT ISLAND WATER
AND SEWER COMPANY, INCORPORATED
FOR AN INCREASE IN ITS RATES AND
CHARGES FOR THE PROVISION OF WATER
AND SEWER SERVICES AND APPROVAL OF
MANAGEMENT AGREEMENT**

SETTLEMENT TESTIMONY OF SHARON G. SCOTT

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO: 2008-142-W/S

**IN RE: APPLICATION OF GOAT ISLAND WATER AND SEWER COMPANY,
INCORPORATED FOR AN INCREASE IN ITS RATES AND CHARGES FOR
THE PROVISION OF WATER AND SEWER SERVICES AND APPROVAL OF
MANAGEMENT AGREEMENT**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Sharon G. Scott. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina, 29201. I am employed by the South
Carolina Office of Regulatory Staff ("ORS") as an Audit Manager.

Q. DID YOU PREFILE DIRECT TESTIMONY IN THIS CASE?

A. Yes I did.

**Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY IN
THIS PROCEEDING?**

A. The purpose of my settlement testimony is to explain the adjustments
agreed upon by and between the Office of Regulatory Staff ("ORS") and Goat
Island Water & Sewer Co., Inc. ("Goat Island" or "the Company") (together

referred to as the "Parties" or sometimes individually as "Party") under the current docket. I have attached the following exhibits to my settlement testimony:

- Settlement Exhibit SGS-1: Operating Experience and Operating Margin
- Settlement Exhibit SGS-2: Explanation of Adjustments
- Settlement Exhibit SGS-3: Computation of Depreciation and Amortization Expenses
- Settlement Exhibit SGS-4: Computation of Income Taxes

Q. PLEASE EXPLAIN THE SETTLEMENT OPERATING EXPENSE ADJUSTMENT THAT IS DIFFERENT FROM YOUR DIRECT PREFILED TESTIMONY.

A. The Company agreed with all ORS adjustments in the prefiled testimony with the exception of rate case expenses. As part of the settlement agreement, the parties agreed to include additional rate case expenses of \$1,600 for September 2008 resulting in total rate case expenses of \$26,247 for this proceeding. Additionally, the parties agreed that a three-year period is a reasonable time to amortize rate case expenses. Therefore, per the settlement, the rate case expense adjustment amounts to \$8,749 (\$26,247/3years). This adjustment, along with the changes in income taxes and customer growth, is shown in my exhibits attached to this settlement. The calculated operating margin is 7.32% after settlement accounting and pro forma adjustments.

1 **Q. WHAT IS THE OPERATING MARGIN AFTER THE SETTLEMENT**
2 **PROPOSED INCREASE?**

3 **A.**After the settlement proposed increase of \$26,948 and the resulting
4 adjustments, the calculated operating margin is 16.27%.

5 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

6 **A.**Yes it does.

Goat Island Water and Sewer Co., Inc.
Docket No. 2008-142-W/S
Operating Experience and Operating Margin
For the Test Year Ended June 30, 2007

	(1)	(2)	(3)	(4)	(5) After Settlement	(6)	(7) After Settlement
	Application Per Books	Differences	Revised Per Books	Settlement Proposed Accounting & Pro Forma Adjustments	Settlement Proposed Accounting & Pro Forma Adjustments	Settlement Proposed Increase	Settlement Proposed Increase
Operating Revenues							
Water Fees	\$ 177,681	(19,197)	158,484	1,014 (A)	159,498	26,502 (U)	186,000
Sewer Fees	0	34,560	34,560	90 (A)	34,650	446 (U)	35,096
Access Fees	0	0	0	168 (B)	168	0	168
Total Operating Revenues	\$ 177,681	15,363	193,044	1,272	194,316	26,948	221,264
Operating Expenses							
Ads	\$ 200	(200)	0	0	0	0	0
Gas	5,117	7,360	12,477	(2,415) (C)	10,062	0	10,062
Bank Charges	252	422	674	(209) (D)	465	0	465
Outside Labor	3,830	4,639	8,469	(2,694) (E)	5,775	0	5,775
Insurance - Vehicles	939	277	1,216	0	1,216	0	1,216
Maintenance	2,863	(2,863)	0	0	0	0	0
Office Supplies & Postage	3,507	375	3,882	(661) (F)	3,221	0	3,221
Accounting	975	1,485	2,460	0	2,460	0	2,460
Legal	14,500	4,100	18,600	(14,901) (G)	3,699	0	3,699
Rent (sprayfield & equip.)	3,180	320	3,500	0	3,500	0	3,500
Repairs	7,270	1,951	9,221	(512) (H)	8,709	0	8,709
Op. Supplies - Materials & Supplies	11,501	4,956	16,457	(5,731) (I)	10,726	0	10,726
Taxes - PSC, Utility & License	1,459	11,951	13,410	(11,403) (J)	2,007	200 (V)	2,207
Taxes - Property	4,000	(3,281)	719	0	719	0	719
Salary - Non-owner	16,475	0	16,475	14,725 (K)	31,200	0	31,200
Payroll Taxes	1,318	329	1,647	1,026 (L)	2,673	0	2,673
Telephone	904	5,449	6,353	(1,300) (M)	5,053	0	5,053
Water Analysis	16,211	2,781	18,992	0	18,992	0	18,992
Safe Drinking Water Act	8,375	(8,375)	0	0	0	0	0
Utilities	20,808	(3,319)	17,489	0	17,489	0	17,489
Depreciation	20,875	(1,440)	19,435	(3,769) (N)	15,666	0	15,666
Dues	175	30	205	0	205	0	205
Permits	3,402	(3,402)	0	0	0	0	0
Management Fee	0	0	0	24,000 (O)	24,000	0	24,000
Unclassifieds (Miscellaneous)	0	687	687	(436) (P)	251	0	251
Rate Case Expenses	0	0	0	8,749 (Q)	8,749	0	8,749
Income Taxes (State & Federal)	0	0	0	3,365 (R)	3,365	5,148 (W)	8,513
Total Operating Expenses	\$ 148,136	24,232	172,368	7,834	180,202	5,348	185,550
Net Operating Income (Loss) for Return	\$ 29,545	(8,869)	20,676	(6,562)	14,114	21,600	35,714
Add: Customer Growth	0	0	0	109 (S)	109	167 (X)	276
Less: Interest Expense	7,648	10,679	18,327	(18,327) (T)	0	0	0
Total Income (Loss) for Return	\$ 21,897	(19,548)	2,349	11,874	14,223	21,767	35,990
Operating Margin	12.32%		1.22%		7.32%		16.27%

Goat Island Water and Sewer Co., Inc.
Docket No. 2008-142-W/S
Explanation of Adjustments
For the Test Year Ended June 30, 2007

SETTLEMENT EXHIBIT SGS-2
Page 1 of 2

Revenues and Expenses	Adj.#	Description	\$ Per Settlement	\$ Per Application
<u>Settlement Proposed Accounting and Pro forma Adjustments</u>				
(A) Water Fees	1	To normalize customer billings for the test year for water fees.	1,014	0
(A) Sewer Fees	2	To normalize customer billings for the test year for sewer fees.	90	0
(B) Access Fees	3	To include access fee revenue for Gin Pond customers.	168	0
(C) Gas	4	To remove non-utility gas expenses. ORS did not adjust for an estimated increase in gas expenses since they were not known and measurable.	(2,415)	1,383
(D) Bank Charges	5	To remove late payment fees and credit card finance charges.	(,209)	0
(E) Outside Labor	6	To reclass contract labor for employee now working full-time. ORS adjusts for additional salaries in adjustment #13.	(2,694)	6,570
(F) Office Supp. & Postage	7	To remove non-utility supplies.	(661)	0
(G) Legal	8	To amortize non-recurring legal expenses of \$18,497 over 5 years.	(14,901)	0
(H) Repairs	9	To remove expenses outside the test year and other non-utility services.	(512)	0
(I) Materials & Supplies	10	To remove non-utility materials and supplies and out-of-test year expenses.	(5,731)	0
(J) DHEC Fees	11	To remove pass-through DHEC Fees for the Safe Drinking Water Act.	(11,559)	0
Gross Receipts Tax	12	To remove penalty for late payment.	(26)	
Gross Receipts Tax	13	To adjust taxes to reflect accounting and pro forma adjustments using a factor of .0074178.	182	0
<u>Total Taxes - PSC, Utility, & License</u>			(11,403)	0
(K) Salary Non-Owner	14	To annualize wages to include two full-time employees.	14,725	0
(L) Payroll Taxes	15	To adjust payroll taxes for annualized wages.	1,026	0
(M) Telephone	16	To remove non-utility expenses, correct a math error and remove out-of-test year expenses.	(1,300)	0
(N) Depreciation	17	To adjust depreciation and amortization on all fixed assets.	(3,769)	0
(O) Management Fee	18	To include Management Fee amount for proposed agreement.	24,000	0
(P) Miscellaneous	19	To remove non-utility related travel and business meals and a charitable contribution.	(436)	0
(Q) Rate Case Expenses	20	To include rate case expenses of \$26,247 amortized over 3 years.	8,749	0
(R) Income Taxes (State and Federal)	21	To adjust income taxes to reflect accounting and pro forma adjustments.	3,365	0
(S) Customer Growth	22	To adjust for water customer growth.	109	0
(T) Interest Expense	23	To remove nonallowable interest expense.	(18,327)	0

Goat Island Water and Sewer Co., Inc.
Docket No. 2008-142-W/S
Explanation of Adjustments
For the Test Year Ended June 30, 2007

SETTLEMENT EXHIBIT SGS-2
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			\$	\$
Revenues and Expenses	Adj.#	Description	Per Settlement	Per Application
<u>Settlement Proposed Increase</u>				
(U) Water Fees	24	To adjust customer billings for settlement proposed rate increase for water fees.	26,502	59,460
(U) Sewer Fees	25	To adjust customer billings for settlement proposed rate increase for sewer fees.	446	446
(V) Gross Receipts Tax	26	To adjust gross receipts taxes associated with the settlement proposed rate increase using a factor of .0074178.	200	0
(W) Income Taxes (State and Federal)	27	To adjust income taxes associated with the settlement proposed rate increase.	5,148	0
(X) Customer Growth	28	To adjust for water customer growth.	167	0

Goat Island Utilities, Inc.
Docket No. 2008-142-W/S
Computation of Depreciation and Amortization Expenses
For the Test Year Ended June 30, 2007

Year Acquired	Description	Depreciation Expense Per Application	Reclass Land	Remove Non-Utility Plant	Amort. of Loan Costs	Adjusted Depreciable Plant In Service	W/W Service Life	Rate	Expense
		\$	\$	\$	\$	\$	years	%	\$
Fixed Assets Per Application:									
07/01/95	Water/Sewage Plant	157,674	(20,000)			137,674	27	3.70%	5,094
09/01/95	Fencing	2,950				2,950	15	6.67%	197
06/01/96	Water Plant Additions	32,021				32,021	27	3.70%	1,185
09/14/96	Computer	1,208		(1,208)		0	0	0.00%	0
03/01/97	Water Plant Improvements	4,000				4,000	27	3.70%	148
01/02/97	4" Mixer	306				306	15	6.67%	20
10/14/97	Printer	356		(356)		0	0	0.00%	0
03/28/98	New Well/Pump	20,000				20,000	17	5.88%	1,176
02/20/99	Fencing	1,900				1,900	15	6.67%	127
01/02/99	Monitor	358		(358)		0	0	0.00%	0
06/28/00	Equipment	600				600	15	6.67%	40
10/01/01	Treatment Improvements	240				240	27	3.70%	9
05/01/03	Office Equipment	1,974		(1,974)		0	0	0.00%	0
12/11/04	Truck (Sold)	9,000				9,000	6	16.67%	1,500
07/01/96	Ditch Witch	8,000		(8,000)		0	0	0.00%	0
02/28/98	Office Furniture	848		(848)		0	0	0.00%	0
02/28/98	Air Conditioner	275		(275)		0	0	0.00%	0
06/01/00	Ditch Witch	13,000		(13,000)		0	0	0.00%	0
06/02/04	Telephone	424				424	10	10.00%	42
08/14/04	Aerators	2,154				2,154	12	8.33%	179
08/16/04	Trailer	535				535	6	16.67%	89
01/01/78	E&R Water System	59,096	(12,000)			47,096	27	3.70%	FD
02/01/96	Farm Equipment	25,000		(25,000)		0	0	0.00%	0
06/01/05	Equipment	5,932				5,932	15	6.67%	396
06/01/05	Equipment	800				800	15	6.67%	53
07/01/83	Sigfield Tank & Wells	60,000			(1,132)	58,868	20	5.00%	FD
07/01/83	Sigfield Water Lines	60,000			(1,132)	58,868	40	2.50%	1,472
07/01/83	Sigfield Land	15,000	(14,716)		(284)	0	0	0.00%	0
01/01/92	Wyboo Tanks & Equipment	23,500				23,500	20	5.00%	1,175
01/02/92	Wyboo Pipes	104,500	(15,000)			89,500	40	2.50%	2,238
01/03/92	Wyboo Water Main	14,422				14,422	38	2.63%	379
Total Adjusted - Per Application		626,073	(61,716)	(51,019)	(2,548)	510,790			15,519
Adjusted By ORS									
12/11/04	Truck (Sold)					(9,000)	6	16.67%	(1,500)
04/30/04	Chevy Truck					12,062	6	16.67%	2,011
02/01/00	GMC Truck					13,000	6	16.67%	FD
06/01/05	Equipment - Unsupported					(5,932)	15	6.67%	(396)
06/02/05	Equipment - Unsupported					(800)	15	6.67%	(53)
Balance						520,120			15,581
Reclass Land									
07/01/95	Goat Island Land					20,000			
01/01/00	E & R Land					12,000			
02/01/07	1 Lot Bendon Drive					7,358			
02/01/07	1 Lot Bendon Drive					7,358			
01/01/92	Wyboo Land					15,000			
Total Land						61,716			
Amort. of Loan Costs									
02/02/07	Sigfield System - Amort. of Loan costs over average life of plant @ 30 years					2,548			85
Total Fixed Assets, Depreciation & Amortization Expense						584,384			15,666
Per Book Depreciation Expense									19,435
Depreciation & Amortization Expense Adjustment									(3,769)
FD= Fully Depreciated									

Company did not capitalize tap fees, therefore ORS did not adjust for amortization of Contributions In Aid of Construction.

Goat Island Water and Sewer Co., Inc.
Docket No. 2008-142-W/S
Computation of Income Taxes
For the Test Year Ended June 30, 2007

	After Settlement Proposed Accounting & Pro forma Adjustments	After Settlement Proposed Increase
Total Operating Revenues	\$ 194,316	\$ 221,264
Less: Operating Expenses	176,837	177,037
Less: Interest Expense	<u>0</u>	<u>0</u>
State Taxable Income	17,479	44,227
Less: State Income Taxes @ 5%	<u>874</u>	<u>2,211</u>
Federal Taxable Income	16,605	42,016
Federal Income Taxes:		
1st \$50,000 @ 15%	2,491	6,302
Next \$25,000 @ 25%		0
Next \$25,000 @ 34%	<u>0</u>	<u>0</u>
Total State and Federal Income Taxes	3,365	8,513
Less: Income Taxes after Settlement Proposed Accounting and Pro forma Adjustments	<u>0</u>	<u>3,365</u>
Settlement Income Taxes (State and Federal) Adjustment	<u>\$ 3,365</u>	<u>\$ 5,148</u>